HOPE for Homeowners Program

Monthly Report to Congress

For

December 2008

Background

The HOPE for Homeowners Program (Program) was established by the Housing and Economic Recovery Act of 2008 (Act), and signed into law on July 30, 2008.[1] Section 257(l) of the Act requires the Board of Directors of the Program (Board) to transmit to Congress on a monthly basis a report on the Program's progress.

Under the Program, eligible homeowners may refinance their current mortgage loans into a new mortgage insured by the Federal Housing Administration (FHA). The Program is voluntary for all participating parties. In order to participate, borrowers and their current lenders must agree to the Program requirements. The Program requires existing lenders holding senior mortgage liens on the property to release their liens and accept as payment in full the proceeds of the new Program loan. Existing junior mortgage lien holders must also release their liens under the terms of the Program in return for a share of future appreciation of the subject property's value or, as recently approved by the Board, for an upfront payment that is a percentage of the outstanding amount of the junior mortgage loan. The Program requires borrowers to share with HUD a portion of the equity created upon the issuance of the new FHA loan as well as a portion of any future appreciation on the subject property.

The Board is responsible for establishing standards and policies for the Program as contemplated by the Act. The Program went into operation on October 1, the first allowable date under the Act.

This report is based on Program information and Board efforts to implement the Program through mid-December. Similar to the previous monthly reports, no program data is available at this time. Therefore, this report provides information on outreach activities that have been conducted to date. In addition, this report describes the programmatic changes approved by the Board on December 17, 2008, to increase the potential pool of qualified applicants and to promote lender participation. A new mortgagee letter detailing the Board-approved programmatic changes under the Emergency Economic Stabilization Act (EESA) will be issued shortly.

Outreach and Training

As reported last month, FHA is undertaking extensive outreach, education, and training in support of the Program. The primary national FHA training session for the month of December was held at the NeighborWorks Training Institute in Washington, DC, from December 8 through December 12. The session echoed the November national training in Atlanta. The lending industry and counselors continue to experience difficulty in offering or finding suitable borrowers for the Program. The central concerns are the cost of the Program to the borrower and lender, the legislative features that deviate from standard FHA products to make it more administratively complex, and the lack of a

[1] *See* Pub. L. 110-289 (July 30, 2008).

secondary market for these loans to date. The H4H Board is sensitive to these issues, and work is under way to address them to the extent possible under current law.

With regard to borrower outreach, FHA and our partner agencies are developing an integrated consumer advertising campaign across a variety of media including radio, print, and the Internet. We are engaging HUD's target audiences through various online channels, while referring interested parties to the FHA.gov portal for detailed information. We have also leveraged HUD's field network and industry partners to expand outreach. Two online training tools are being developed by the Federal Reserve Board to post on the FHA Web site. On December 5, FHA and NeighborWorks America developed an online training course about the Program for housing counselors; this course will be posted on the Web sites of both organizations.

Recognizing that timely outreach from the lender community to struggling consumers is critically important, a form has been added to the Program Web site for FHA-approved lenders to sign up for the HOPE for Homeowners Program. There are currently more than 200 brokers included on the list, which is available for consumers on FHA.gov. Unfortunately, very few sponsoring lenders, who would underwrite, close and fund H4H loans, have signed up for the program to date. The lending community needs time to understand the unique statutory requirements of the HOPE for Homeowners Program, to modify their protocols and practices, to train their staff, and to update their technology systems before they can responsibly offer it to consumers. Consumers are strongly encouraged to contact their servicing lender and any subordinate lien holders since their participation is vital for a refinance into a HOPE for Homeowners mortgage.

<u>Board-Approved Changes</u>

The new statutory authority provided by Emergency Economic Stabilization Act (EESA) offered the Board the means to make some immediate changes to the Program that should expand eligibility and encourage greater Program participation by lenders. At its most recent meeting on December 17, 2008, the Board approved the following changes to the Program:

- **Two to Four-Unit Properties.** The types of properties eligible for the Program have been expanded to include two to four-unit owner-occupied properties. That change should allow more borrowers to participate in the Program, especially in certain geographic areas like the Northeast, where two to four-unit properties are more common.

- **Endorsement Timeframe.** The timeframe for lenders to obtain endorsement for Program loans has been expanded so that it is consistent with other FHA programs. This change will make the endorsement process simpler for lenders. To ensure that lenders comply with the first payment default provision established in the law, the Board will continue to require the lender to include in the file evidence that the borrower has made the first payment within 120 days of loan closing.

- **Equity Sharing.** The equity sharing requirements of the Program have been modified to eliminate the potential for a borrower to be required to share any existing equity the borrower may already have in the home with HUD through the Program.

The changes, some of which were detailed in the November report, are being reviewed by the Office of Management and Budget.

Additionally, the Board of Governors of the Federal Reserve System (FRB) is developing legal guidance on the treatment of the statutory equity and appreciation sharing provisions of the Program under the Truth in Lending Act (TILA), the Home Owners Equity Protection Act (HOEPA), and other consumer laws administered by the FRB. The FRB's Division of Consumer and Community Affairs, which is responsible for issuing interpretive guidance under TILA and HOEPA, plans to issue interpretive guidance on these matters shortly. This guidance will be posted on the Program's website.

Program Activities to Date

The total activity under the Program continues to be low. One loan has been closed, but had not yet finished the insurance endorsement process. As of mid-December, 300 case numbers have been assigned. The assignment of a case number indicates to FHA that the lender intends to qualify the borrower for a HOPE for Homeowners loan. There are 67 lenders associated with these case numbers, with the majority of case numbers requested by a single lender. Most of the case numbers are for homeowners living in California, Florida, and Nevada.

These initial 300 case numbers provide a first opportunity to analyze the potential effects of the various qualification criteria for HOPE for Homeowners loans. Each of the 300 cases has been run through an automated fraud detection tool to ensure compliance with the various statutory provisions. FHA has made this tool available to lenders as a specialized fraud detection tool, which also identifies cases where owner-occupancy may be in question. Ninety have been flagged for possible non-compliance under one or more of the following statutory requirements: owner occupancy, ownership of no more than one residential property, and no fraud convictions over the previous 10 years. An additional 181 cases required a manual search for fraud conviction, as an automated search is unavailable in approximately 10 states due to privacy restrictions. Once the tool has been run and an issue is identified, the lender must resolve the issue before a HOPE for Homeowners loan can be insured. Only 10% of cases run required no follow up. Assuming the experience with these 300 loans is indicative of the broader population of HOPE for Homeowners borrowers, it could well take a lender and borrower longer to complete the HOPE for Homeowners loan transaction than it would for other FHA loan products.

The first HOPE for Homeowners loan was closed this week by Lend America on a property located in California. As California is one of the states where the public records on fraud convictions are not available, this case was flagged and a manual search is required. The loan cannot be insured until that search is complete.

While interest thus far has been lower than expected and some challenges remain, these preliminary figures are a positive sign that there is interest in the program. We continue to get reports that lenders are working to identify borrowers who may qualify for the Program. The Board anticipates that interest in the Program will grow as a result of enhancements to the Program made under EESA and described above.